

Futures Truth Magazine

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#3-2017 Issue

Chart Patterns
By Lundy Hill

Interview with Michael Grech
of Quantopolis

Paradigm Shift: An Introduction
By Andrew Danik

The Holy Grail Parlor Trick
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FTC was established to bring truth to the world of publicly offered trading systems. The public is literally flooded with trading systems which carry promise of great wealth, if one only has the discipline to "follow the system". Many traders have purchased systems for large sums of money only to find out later that the system is worthless. Our purpose is to provide information to assist you in both the purchasing of and the actual decision to trade a system. It is up to you to reach your own conclusion from the facts we present.

There is a substantial risk of loss in futures trading. The high degree of leverage that is found in futures (because of small margin requirements) can work against you as well as for you, i.e., you can have large losses as well as large gains.

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- Futures Truth™ is a registered CTA & trades for its own account.
- The owner of Futures Truth™ has an affiliation with the brokerage firm, Commodity Research Institute (CRI), a registered IB.
- Brokers with CRI have systems that we track in Futures Truth™ Magazine. These systems are Stafford S&P Daytrade, FT S&P Daytrade, Universal, Universal LT, Pendulum, and Universal 2.0.
- Futures Truth™ Magazine does track and may trade systems that are created and sold by Futures Truth™ Company. These systems are Samurai 7, Samurai 31, Samurai 35, Dynamic Breakout, FT Version Turtle Trading, and Dynamic Moving Average Crossover.



Classic Chart Patterns

Lundy Hill discusses the classic Cup and Handle pattern and provides concrete examples in his illustrations. He goes on further to describe how one can incorporate this pattern into one's trading **13**



Interview with Michael Grech

We occasionally like to reach out to our new vendors to gain a fresh insight into the current state of today's trading environment. In this interview, Michael discusses his experiences and trading philosophies and proffers advice to any potentially new trader. **38**



Paradigm Shift : An Introduction

In this article, Andrew discusses decision making in trading, and the importance of planning and effective management needed to maintain a successful trading strategy. He outlines several topics that will be included in his upcoming series of articles, including: setting up a business plan for trading, assessing risk based on trading style, utilizing a portfolio plan for the purpose of monitoring trading systems and a closing plan to determine if and when a program should be shut down. **36**

FOR THE RECORD **44**



Read enforcement press releases from the CFTC to learn about the latest industry violations. Find out which companies and individuals to avoid at all costs.



Vendor Interview

Michael Grech

How did you get into the futures business?

I had some index strategies that were good but did not trade that often. So I wanted to find a way that I could trade them without tying up a lot of capital. Since futures offer good leverage on index products I could incorporate these systems in my portfolio without tying a lot of capital.

How to do you prepare for your trading day? Understanding that trading is a strenuous day-to-day business, is there any ritual?

My trading day preparation is actually pretty easy. Since all my trading is with automated or semi-automated systems it typically takes me about 20 mins or so every day to get set up. This involves starting up my computers, opening my various brokerage accounts, launching my systems and updating my databases. I also like to scan the financial news headlines and read the occasional article. That said, I always trade the same systems no matter what the market does. So reading the news is for entertainment and education purposes and not for trading direction.

What inspired you to create trading systems?

When I first started looking at managing my own monies I read some books about Warren Buffett and value investing and started hunting for value priced stocks. I did fairly well as the market conditions were favorable but I never knew how complete my analysis was and it still felt like a guessing game. So I started thinking about developing a more systematic approach to my decision making process. One that would quantify the validity of my choices and take the guesswork out of investing. With my background in signal processing this was a natural progression for me.

How did you get into systems development?

As I started following the markets on a regular basis I made some observations about stocks that I thought were repeatable and quantifiable. So I decided to write some code to test out my hypothesis. As it turns out I was right in my observations and my first system was born.

Do you think it's possible to use a pure systematic approach without any discretion at all?

Yes. This is my approach. If the systems have been back tested and optimized properly then there is no reason to interfere. They are already giving you the best possible outcome you can hope for. Sure, you will have some winning trades and some losing trades, or some winning periods and some losing periods, but in the long run you are better off sticking with the system.

If you observe, for example, that your system is exiting too early or missing out on opportunities etc... then you either need to optimize your system or include another system in your portfolio. But using "discretion" to try and get more out of a particular trade is just gambling and a recipe for disaster.

You can never know if a coin toss is going to be heads or tails but you do know that an unbiased coin will over time give 50% heads and 50% tails. So stick with your system.

Where are the best financial opportunities now?

I think one of the best opportunities right now is in Volatility. Although this market has been gaining in popularity over the past few years with the launch of several ETFs and ETNs that track the volatility futures, a lot of people still do not know what it is and how to take advantage of it. Due to its unique nature it lends itself well to a systematic approach and in my opinion everybody should think about having a Volatility component in their portfolio.

What do you think are the hot markets this year? Do you have any inflation, or economic disaster, forecasts?

This year the small cap equities such as the TF have done very well. How long are these favorable market conditions going to last? I don't know. The longer I trade the more convinced and the more comfortable I am with the fact that you never know what the market is going to do. So I hope that I have enough diversification in my portfolio so that no matter what the market does I still come out on top.

Are most new traders' expectations unreasonable?

If they think that they are going to make a lot of money quickly, then most likely yes. Unless they get lucky. To my mind trading is a slow and steady process as illustrated by the story of the tortoise and the hare.

Do you have any special advice for new traders that you wish you'd had when you were getting started? Is there anything that you would tell to those new to trading commodities or stocks that you wish someone had told you when you were getting started?

I think the main advice I would give to new traders would be to not get fooled by strategies showing spectacular returns over short periods of time. Assuming the results are even real, depending on the strategy, a few months to a few years of results don't mean much. In some cases even ten years of data are not enough.

I would also tell new traders that the downside of the strategy or the maximum drawdown is just as important as the returns. Not knowing what the historical drawdowns for a strategy have been is like trading blind. I don't trade a strategy unless I have seen both the potential upside as well as the potential downside.

The ratio of average annual returns to maximum drawdown is critical in determining the Return on Capital of a trading system and should be one of the key metrics of choosing a strategy.

The other thing I would say is to diversify as much as possible. By this I mean not only trading different markets but also trading different strategies which are based on different assumptions.

What are your favorite markets to trade?

I like to trade the indices and associated products such as volatility although lately I've been doing more research on other markets such as gold and oil in an effort to increase my diversification even further.

Do you think a one algorithm approach to all markets is realistic?

I don't think so. Different markets have different characteristics and so a system that is very well suited for indices for example might not work at all or do very poorly in another market.

Do all systems fail eventually?

Every system is based on some assumptions and tries to take advantage of the underlying market characteristics. If these characteristics change and the assumptions break down then the system is going to fail. On the other hand if the market characteristics remain somewhat similar to the past and the system assumptions continue to hold true, then the system should continue to work.

Michael's new system TF-Pullback (Sys. Num. 800) is introduced in this issue.

He can be contacted via his website at www.quantopolis.com. He leases his signals for \$75 per month per contract.